

International
Support
Policies
to
South-East
European
Countries

Lessons
(Not)
Learned
In

CHAPTER I

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THE GENERAL SITUATION IN B-H AND INTERNATIONAL SUPPORT POLICIES

The general situation in Bosnia-Herzegovina (B-H) is greatly characterized by two “specificities”. The first is economic transition in post-war conditions, i.e. the parallelism of transition and reconstruction. The second is the dominant role of international support policies in that process. An attempt is made here to analyze these characteristics, most importantly because they have ceased to be exclusively characteristics of B-H. They can be observed in other SEE countries, as well.

1. Consequences of the War

1.1. The consequences of the war in B-H are vast and incalculable. Reliable data still do not exist about the measurable consequences and no one dares estimate the immeasurable ones.¹ The data that follow pertain to the end of 1998. In the meantime, no significant changes regarding these basic data have taken place.

It is estimated that 258,000 inhabitants of B-H died or are missing, i.e. 5.9% of the pre-war population was eliminated.² Other estimates are that the dead and missing, counting also the increase in mortality rate, number 269,800 inhabitants (of which 152,900 were Bosniacs, 72,350 Serbs, 31,060 Croats and 13,500 were of other origin).³ It is interesting to note, according to the data of the State Commission for Missing Persons, that 27,371 persons have been declared missing to date. According to International Red Cross data, 19,000 persons are missing.⁴

During the war, 1995 was the peak year in terms of the sheer number of displaced persons when they numbered 1,282,000. The estimated number of displaced persons at the end of 1997 was 866,000 and in 1998, 816,000.⁵

There were 1.2 million refugees from B-H at the end of the war. Now it is estimated that 712,555 of the total number of refugees have found permanent solutions abroad and that 611,969 refugees are still without a permanent solution and are potential returnees.⁶ Approximately 50% of the 1991 population of B-H have changed their place of residence.

1.2. The economic impact of the war is estimated at 50 – 60 billion USD, of which 20 billion USD covers production capacity.⁷ Numerous other estimates exist, taking into consideration the GDP lost from 1992 to date, which represents indirect economic losses, the combined total of indirect and direct losses is approximately 100 billion USD.

Indirect effects, such as the destruction of the governance system, the interruption of economic development, education and development of technology, as well as the “brain drain”, although immeasurable, are undoubtedly colossal.

¹ For more information see: UNDP *Human Development Report (HDR) – Bosnia-Herzegovina - 1998*, UNDP/IBHI Sarajevo, 1999.

² According to an FB-H Public Health Institute estimate.

³ According to estimates from an unpublished study by Dr. Ilija Bošnjović and a group of researchers, *Demographic Changes in Bosnia-Herzegovina from 1991 to 1998*. See in the International Forum of Bosnia, Document no. 1, *Return of Displaced Persons and Refugees as a Condition for the Survival of Bosnia-Herzegovina*, Sarajevo, January 1999.

⁴ See: Helsinki Committee for Human Rights in B-H, *Report on the Human Rights Situation in B-H, January-December 1998*, Sarajevo, December 1998.

⁵ See: UNHCR, *The State of the World's Refugees*, 1995, and UNHCR, *The Operation of Return 1998*, 1998.

⁶ See: UNHCR, *The State of the World's Refugees Seeking Asylum*, 1995, and UNHCR, *Populations of Concern to UNHCR - 1997 Statistical Overview*, 1998.

⁷ UNDP, *Reconstruction, Reform and Economic Management in Bosnia-Herzegovina*, Vienna, January 1997.

Destruction of the society, social ties, tolerance and coexistence, the breakdown of families and small communities and the general collapse of social values and normal life are the most enduring consequences of the war, which cannot be mitigated in a short time. It will be much more difficult to reconstruct the social fabric than the bridges and roads.

1.3. The “brain drain” is undeniably one of the most severe and specific consequences of the war. In B-H, it has taken various forms:

1.3.1. A large proportion of the refugee population is highly qualified. The situation is worsened by the fact that most of the people have secured a permanent solution abroad and will probably never return. It should be added that the school-age population that left the country and has completed its university education abroad will probably also not return in large numbers.

1.3.2. The proportion of highly qualified people is significantly lower among the displaced population. Qualified, displaced persons, although within B-H, generally do not work at all, or if they do, the positions they hold are unrelated to their qualifications, or require far lower qualifications.

1.3.3. In its literal sense, the “brain drain” existed during the war. Intellectuals left through their own arrangements, using their own connections. Without registering as refugees, they stayed on in temporary employment, eventually to settle down in their country of residence. Ironically this process escalated greatly after the advent of peace, i.e. after the GFAP. It is estimated that the total number of emigrants from B-H between 1996 and 1998 was 42,000, a large proportion being highly qualified people and their families.⁸

Unofficially, it is speculated that tens of thousands of B-H inhabitants are in the process of receiving permission to settle abroad.

In the meantime, the problem has become severe. Data from research carried out during the production of the “HDR - B-H 2000 – Youth” indicate that 62% of the youth of B-H want to leave the country.⁹

The “brain drain” represents a major handicap for reconstruction efforts in both the social and economic spheres. It is particularly disquieting that the phenomenon is gathering momentum instead of diminishing after the war. Awareness of this social hemorrhage is barely beginning to dawn upon the policy-makers and the well-wishers of the country. Unless the trend is reversed, it is possible that the “exodus” from the country will be a greater problem than “return”.

1.4. A consequence of war (or rather, the nature of the peace agreement) is also a very specific structure of governance. The general problem of weak and inefficient State institutions in ex-socialist countries is greatly amplified in B-H.

1.4.1. The Dayton Peace Agreement (DPA) in Bosnia-Herzegovina brought an end to the armed conflict but at the same time brought into being an extremely complicated State structure. The two Entities; the Federation of Bosnia-Herzegovina (FB-H) and Republika Srpska (RS), were afforded a high level of autonomy in exercising State functions. The basic constitutional structure of the country is characterized by a pronounced dominance of the “nationality” (or ethnicity) factor, manifested in the divided territorial constituencies of its three nationalities: Bosniacs, Croats and Serbs.¹⁰

⁸ See: Dr. Ilija Bošnjović, *ibid.*, footnote 3.

⁹ Source: UNDP, *HDR - B-H 2000 - Youth*, UNDP/IBHI, Sarajevo, 2000.

¹⁰ For more details see UNDP, *HDR - B-H - 1998*, UNDP/IBHI, Sarajevo, 1999.

1.4.2. The functions and jurisdiction of the organs of the State of B-H have a limited scope. Responsibilities within their jurisdiction, as enumerated in Article III of the Constitution, are:

- foreign policy;
- foreign trade policy;
- customs policy;
- monetary policy (as provided in Article VII of the Constitution);
- financing of the country's institutions and international obligations;
- immigration, refugee and asylum policy and regulation;
- international and inter-Entity criminal law enforcement, including relations with Interpol;
- establishment and operation of common and international communications facilities;
- regulating inter-Entity transportation and air traffic control.

Bosnia-Herzegovina, at the State level, does not have its own classical judicial system. The role of administering justice has been granted to the Entities, except for the relatively undefined and limited jurisdiction retained by the central authorities to implement "international and inter-Entity policies and regulation of criminal justice". At the State level, there is also no army or police. Taken altogether, the central authorities of B-H have been deprived of three important tools of the State necessary for maintaining law and order at a national level.

1.4.3. The decision-making processes of the organs of the State of B-H are both complex and inefficient. They incorporate a form of veto, which can be employed as a tool to maintain the status quo or to postpone decisions until they become insignificant or outdated. A similar provision exists in the constitutional system of the FB-H.

Within the new Constitutional framework, the principle of a decision-making hierarchy is almost extinguished. This encroaches upon the effective implementation of decisions made by the organs of the State of B-H. With the exception of the limited and complex powers of the Constitutional Court of B-H, implementation of decisions of the central authorities depends almost entirely on the will of the Entities. This impedes the functioning of B-H's state government organs.

The constitutional structures of the authorities in the two Entities are significantly different. There also exist, in parallel, segments of various different legal systems from the laws in force at the time of ex-Yugoslavia, the laws from pre-Dayton legal practice and the legislative practices of RS and FB-H.

Decentralization characterizes the Federation (FB-H), although implementation is somewhat paradoxical in that it is based on the dominant position of the canton and on the unclear and insecure constitutional position of the municipality. In the FB-H, there are four vertical levels for the exercise of authority (municipality, city, cantonal and FB-H levels).

A further fifth level of authority may be born through the establishment of a "district", as is the case with Brčko. Conversely, in the RS, there are only two levels at which authority is exercised (municipality and Entity levels).

Bosnia-Herzegovina is a State with 13 "constitutions", in which 13 assemblies pass laws, and in which 13 "governments" and close to 200 "ministries" adopt regulations and pass further codes. There is reason to fear that as a consequence, this will be a very expensive administration and a very bureaucratic, inefficient system of governance.

The other part of the "governance system" in B-H is the extensive jurisdiction of OHR (Office of the High Representative). Even if there were no political opposition to the democratization and institution-building of the country by the "ethnic parties", such a complicated governance structure would itself decrease the efficiency of the impact of OHR.

2. Triple Transition in the Post-War Period

In the previously described conditions the social dynamism in B-H is characterized by a “triple transition”.¹¹

2.1. The implementation of the GFAP is in essence a transition from war to peace. With strong support of international forces in military, civilian, economic and humanitarian/social fields, this process is making modest progress and facing serious obstacles including its internal contradictions. It is obvious that this process will take longer than expected and that it would be faced with great risks if international support was to diminish or disappear. Political factors dominate the socio-economic scene and serious efforts will need to be made to set the B-H priorities right.

2.2. B-H is one of the biggest beneficiaries of international assistance in various fields. Even though the population of B-H would have had difficulty surviving during the war or normalizing life after it without international assistance and support, care must be taken that foreign aid does not nurture a dependency syndrome. The smooth and speedy transition from emergency assistance to sustainable development is therefore, in the greatest interest of the country as is local capacity and institution-building.

The key factor in the transition to sustainability of the society and its development is the comprehensive change in consciousness and way of thinking of the leaders and the population. In the minds of most people in B-H in the traditional consciousness, it seems that the international community has replaced the State in the role of the new “patron”. During the socialist period it was expected of the all-powerful State to solve all the citizens’ problems, as well as those of companies and local communities. Solutions to problems are expected to come from the international community, while the local energy remains reigned in and the leaders and population passive.

B-H can exit the “dependency crisis” only through a “radical” change in the way of thinking and in each aspect of its system. This will “awaken” the inhabitants of B-H and make them take responsibility for their future.

2.3. The transition from a centrally-planned economy and political monopoly to a free market economy, democracy and civil society is the key link to the future and the two transition processes described above. It is not only that B-H is required to simultaneously cope with the consequences of war and a basic change in the economic and political system. It is also a fact that B-H is a country where the transition itself, both directly and indirectly, has been financially supported from abroad.

Transition in the post-war period and international financial support to the transition are two characteristics of B-H. Unfortunately, B-H has not made use of the second one. Even today, the transition process is just at the very beginning. New laws and market institutions are lacking, and “real” privatization was only just started in the year 2000, etc.

The following table shows the “progress” of B-H with regard to the transition in comparison to certain other countries. Although the ranks are provided for 1998, they are, in the case of B-H, also valid for the year 2000.¹²

¹¹ For more information see: UNDP, *HDR - B-H - 1998*, UNDP/IBHI, Sarajevo, 1999.

¹² UNDP Special Report, *Human Security in South-East Europe*, 1999, p. 24.

Table 1. Extent of Progress in Transition

	Countries			Enterprises			Markets and trade			Financial institutions	
				Large-scale privatization	Small-scale privatization	Governance & enterprise restructuring	Price liberalization	Trade & foreign exchange system	Competition policy	Banking reform and interest rate liberalization	Securities markets and non-bank financial institutions
1	Albania	3.2	75	2	4	2	3	4	2	2	2-
2	Bulgaria	8.3	50	3	3	2+	3	4	2	3-	2
3	B-H	4.1	35	2	2	2-	3	2	1	2	1
4	FYROM	2.0	55	3	4	2	3	4	1	3	2-
5	Romania	22.5	60	3-	3+	2	3	4	2	2+	2
6	Croatia	4.5	55	3	4+	3-	3	4	2	3-	2+
7	Slovenia	2.0	55	3+	4+	3-	3	4+	2	3	3

Source: EBRD, *Transition Report 1998*, (classification system: from 1- little progress to 4+ standard performance)

3. Economic and Social Situation in B-H in 2000

3.1. After signing the GFAP the level of economic activities in B-H was extremely low, first of all because of the above-described consequences of the war. Significant international assistance, primarily the Priority Reconstruction and Recovery Program (PRP) led by the World Bank, started being implemented in 1996.

Through PRP the international community were to spend approximately US\$ 5.1 billion on reconstruction aid over a five-year period beginning in 1996. By the end of 1998 donor nations had committed approximately US\$ 4 billion, of which roughly US\$ 2.7 billion had been spent.

The result of international assistance was estimated on the basis of the achieved level of GDP in B-H in 1998 in the amount of 6.9 billion DM. (GDP RS 1.94; GDP FB-H 4.96).¹³

It is estimated that at least 30% of the achieved GDP is the result of international assistance.¹⁴ Total growth of GDP was achieved due to investments of donors in the construction sector (reconstruction of infrastructure, road network, etc.), while investment in the manufacturing sector was minimal, totaling only 2.3% of the total PRP expenditure).¹⁵

Part of the reason for the complete dependency of the B-H economy lies in such a policy of directing donor assistance. Without this massive donor aid, B-H would have negative GDP growth, approximately – 1% annually.¹⁶

3.2. The estimated, achieved level of GDP B-H in 1999 was 35%-40% of the level achieved in 1991.

¹³ Estimates taken from The World Bank, Resident Mission, *Economic Brief for Bosnia-Herzegovina*, November 18, Sarajevo, 1998. We should bear in mind that the estimates of local authorities are lower and that estimates from different sources vary. In the following chapters of the Study, where differences in estimates are not significant, we have kept the original quoted values, together with precise reference to the source of those figures.

¹⁴ ICG, *Is Dayton Failing – Bosnia Four Years After the Peace Agreement*, Balkans Report No. 80, Sarajevo, 28 October 1999, p. 65.

¹⁵ ICG, *Why will no one invest in Bosnia-Herzegovina*, Report No. 64, 21 April 1999.

¹⁶ USAID, *Payments Bureaus in Bosnia-Herzegovina: Obstacles to Development and a Strategy for Orderly Transformation*, Sarajevo, 15 February 1999, p. 56-58.

At the same time, the “gray economy” and indirect influx of cash based on the expenditures of international organizations and presence of foreigners in B-H, form an extremely important segment of the economy.

3.2.1. The “gray economy” in B-H, together with humanitarian aid, was the only means by which the population survived during the wartime period. The black-market channels, plus the penetrable B-H border and absence of a functioning legal system, were a “haven” after the war for the expansion of the “gray economy”. Its integral part is the wide corruption of local authorities and its connection with political centers.

There are no data on the dimensions of the “gray economy” in B-H. However, research that was implemented in the RS can be a good indicator. This showed that the level of gray economy in relation to the RS GDP ranges from 56.3% to 67.5%, depending on the research model used. It can be estimated that the level of “gray economy” is slightly lower in FB-H. With this, it is clear that the “gray economy” is producing almost one half of the registered GDP, with all the negative consequences this carries with it.

3.2.2. The indirect influx of cash based on the expenditures of international organizations and presence of foreigners in B-H is enormous.

It was estimated that, in Sarajevo alone, 15,000 foreign citizens are present every day, working in international NGOs, international organizations, embassies and aid organizations of various countries. They spent 60 million DM per month for living expenses alone, or 720 million DM per year. Thus, if we estimate that Sarajevo today has approximately 400,000 citizens, this creates a monthly influx of 150 DM per each Sarajevo resident, or 42% of the average monthly salary.¹⁷ This influx is creating a completely artificial virtual picture of Sarajevo, a picture of normal life, a European city, without any basis in the reality of the B-H economy and the city itself.¹⁸

Attempts to estimate the expenditures of foreigners throughout the entire B-H were made on the basis of the previous estimate. It was estimated that with 55,000 foreigners working in B-H, they spend 2.5 billion DM per year.¹⁹ This is almost 60 DM monthly per B-H resident (3,600,000 citizens).

3.3. Five years after peace was established in B-H, poverty and unemployment are at the same level as they were immediately following the war and, what is more, are on the rise.

According to estimates, by the end of 1998, 61% of the total population in B-H (58% in the FB-H, 64% in the RS), were in a state of poverty (since there are no officially adopted criteria for the line of poverty, it has analytically been established at a very low level). The unemployment rate was assessed to be at 36.21% (36.58% in FB-H and 35.61% in RS).²⁰ Since there are no reliable official statistical data and the organization of statistics in B-H is just at the initial stages, these are still assessments. Other assessments do not differ significantly.

3.4. The above described situation of the lack of implementation of the GFAP, especially with regard to the return of refugees and displaced persons, as well as the non-functioning of law and State institutions and the extent of unemployment, makes B-H a country of human insecurity. Comparisons with other SEE countries very obviously demonstrate this.

¹⁷ ICG, *Why will no one invest in Bosnia-Herzegovina?*, Report No. 64, 21 April 1999, p. 5.

¹⁸ Ž. Papić, *Emergency Landing into Reality*, In, *Dani*, 10.03.2000, Sarajevo.

¹⁹ E. Bećirović and D. Savić, *Foreigners in B-H – Guardians of Social Peace*, In, *Slobodna Bosna*, 20.07.2000, Sarajevo.

²⁰ See: UNDP, *HDR - B-H - 1998*, UNDP/IBHI, Sarajevo, 1999.

Table 2: Human Security in South-East Europe after the Kosovo War²¹

Country	POLITICAL SECURITY	ECONOMIC SECURITY	OVERALL HUMAN SECURITY
Albania	1 ↑	1 ↑	1 ↑
Bosnia & Herzegovina	1 ↑	1	1
Bulgaria	2 ↑	2	2
Croatia	2	2	2
FYR of Macedonia	2 ↓	2 ↓	2 ↓
Montenegro	1	2 ↓	2 ↓
Romania	2	2 ↓	2
Serbia	1 ↓	1 ↓	1 ↓

1 = low level; 2 = middle level; 3 = high level;

↑ improving trend

↓ deteriorating trend

This table offers an impressionistic view of the human security situation in these countries, based on assessments by contributors from each country.

3.5. The lack of reliable statistical data makes it impossible to exactly calculate the Human Development Index (HDI) for B-H.²² However, an assessment was made and according to this assessment, the B-H HDI for 1998, was 0.660.²³

The overview of the HDI by country for 1998²⁴ enables a comparison of the working assessment of the B-H HDI for 1998 with the HDI of other countries.

The B-H HDI (0.660) for 1998 is somewhat lower than the HDI that characterizes medium human development (0.6704) and significantly higher than the HDI that characterizes low human development (0.409).

In comparison with selected SEE countries, the HDI of B-H is significantly lower in comparison to Bulgaria, HDI – 0.789; Romania, HDI – 0.767; Croatia, HDI – 0.789; Macedonia, HDI – 0.749 and only insignificantly higher than Albania, HDI – 0.656.

The HDI of B-H in 1998 was significantly lower than the average HDI in the world (0.7715) but higher than the average HDI for all developing countries (0.5864).

4. Refugees and Internally Displaced Persons (IDPs)

4.1. Refugees and internally displaced persons were the core of the humanitarian catastrophe in B-H, both during and after the war. Very slow return, in particular up to the year 2000, now gives the issue of refugees and IDPs a new aspect. This is becoming one of the basic social and economic problems in B-H.

²¹ See: UNDP Special Report, *Human Security in South-East Europe*, 1999, p. 19.

²² The HDI is a composite index with three key components; longevity, as measured by life expectancy at birth; educational attainment, as measured by the combination of adult literacy (two-thirds weight) and the combined first, second and third-level gross-enrolment ratio (one-third weight) and standard of living, as measured by real GDP per capita (\$ PPP).

²³ See: UNDP/IBHI, *Human Development Index for Bosnia-Herzegovina: Calculation Assessment, Possibilities and Problems*, (Working document), Sarajevo, March 2000.

²⁴ Source: www.undp.org/hdro/98hdi.htm

It is important to keep the regional aspect of the problem in mind; a large number of B-H refugees are now in the FRY, while a significantly lower number is in Croatia. On the other hand, B-H has refugees both from Croatia and the FRY.

4.2. Internally displaced persons²⁵ – UNHCR estimated their total figure in 1995 to be 1,282,600. With the division of B-H into two Entities, the 1995 displaced population estimate for the Federation was 590,363. Displacement generally took place towards urban areas. Almost 50% of the displaced population fled to Tuzla-Podrinje, whilst other major groups moved to Zenica-Doboj (119,768), Central Bosnia (85,544) and the Sarajevo Canton (73,747).

According to the 1996 census of refugees and displaced persons in RS, the total number of displaced persons is 419,879, amounting to 30.2% of the population. The displaced population was residing in 120,298 households within the RS. The 1996 census indicates that 45% of these households consist of 3-4 members and 22% of 5 or more members. This is a reflection of the lack of available housing and of the need for economic and social solidarity between friends and relatives, forming joint-households as a survival strategy.

The signing of the GFAP did not mark an end to the displacement. Shortly after the transfer of authority from UNPROFOR to IFOR, the two Entities were to establish authority over their respective territories with new inter-Entity borders which led to the displacement of an estimated 80,000 persons.

On the other hand, the return of refugees to B-H was often not a return to their homes. A significant number returned to parts of the country where their nationality is in the majority. From the signing of the GFAP until August 2000, over 120,000 former refugees became new IDPs.²⁶

The largest number of displaced persons are *inter*-Entity displaced, involving those who left their homes during the war and are now resident within a different Entity. Statistics from FB-H show that approximately 65.85% of displaced persons within FB-H fled or were expelled from the territory of RS. *Intra*-Entity displaced primarily denotes those who were displaced during the Bosniac–Croat conflict in Herzegovina and Central-Bosnia, between April 1992 and the signing of the Washington Accords in March 1994. The distinction between these groups of displaced persons is, however, one of form rather than of real substance.

4.3. Refugees²⁷ – at the conclusion of hostilities, 1.2. million citizens of B-H had sought refuge abroad.

In 1998, it was estimated that 712,575 of the total number of refugees had found a permanent or some other form of long-term solution, while 611,969 refugees in 1998 remained without a long-term solution. Of this number over 88% are resident in three host countries, 40% in the FRY, 35% in Germany and 13% in Croatia.

4.4. According to data of UNHCR Sarajevo²⁸, the return of 370,627 refugees was realized by February 2001. Of this, 224,971 refugee returns were organized or assisted. By February 2001, the return of 368,845 IDPs was realized.

UNHCR Sarajevo estimates that on 31 December 2000 there were still 263,500 refugees from B-H in foreign countries (190,600 in the FRY, 20,900 in Croatia and 52,000 in countries outside the Region). On the other hand, B-H had 13,000 refugees from the FRY and 25,000 from Croatia. At the same time, there were 495,200 IDPs in B-H (of this 263,400 were in FB-H and 231,800 in RS).

²⁵ For a more detailed analysis see UNDP, *HDR - B-H - 1998*, UNDP/IBHI, Sarajevo, 1999, p. 79-87.

²⁶ Global IDP Database, *IDPs in Bosnia-Herzegovina*, Norwegian Refugee Council, <http://www.db.idpproject.org>

²⁷ See: UNDP, *HDR - B-H - 1998*, UNDP/IBHI, Sarajevo, 1999, p. 79-87.

²⁸ UNHCR Sarajevo, Table 5: *Returns summary to Bosnia-Herzegovina from 01/01/96 to 28/02/01*.

Thus, following the five-year international efforts at promoting return as one of the basic aims of the GFAP (Annex VII), 20% of the total B-H population still fall into the categories of either IDP or refugee.

4.5. Return support policies of international organizations in B-H are characterized by frequent (annual) conceptual changes of priorities and minor support to capacity building and returnee reintegration, which are the only methods for ensuring return.

4.5.1. The priorities of UNHCR since 1996 were: four pilot municipalities, security zones and “open cities”. In the year 2000, UNHCR returned to its classical mandate. The listed priorities were supposed to support return to the other Entity or part of FB-H where another nationality is in the majority. This justified orientation was later on dubbed “minority return”, a rather unfortunate term, and its priority was Sarajevo (“The Sarajevo Declaration”). Up to the year 2000 this return was rather slow.

4.5.2. During the year 2000 there occurred a sudden increase in “minority return” of IDPs. During the first five months of 2000, there were 15,665 minority returns, which is three times greater than returns realized during the same period of 1999.²⁹ This increase was even greater during the second half of the year. This “turnaround” was the result of a sudden “explosion” of spontaneous returns, in addition to the organized support to the process of return by the international organizations.

This was the result of positive political changes in both Entities at the local elections in April 2000, as well as an obvious disillusionment in the efficiency of international support to return. Political changes did not just have a positive psychological effect (trust in the safety of return), but also ensured the efficient implementation of property laws, i.e. creating conditions for remaining.

4.5.3. It seems that the support policy of international organizations to return has had at least two major faults.

- a) The misunderstanding of the nature of the causes for seeking refuge, the abandonment of their homes by, as we already mentioned, half of the population of B-H, led to wrong policies and their low efficiency.
In B-H, ethnic cleansing was the aim of the war, rather than its “collateral” consequence. Large-scale return was not possible without putting a stop to the policies that planned population moves. In order to ensure return, the removal of political generators of refugees should have been done with more force and much earlier.
- b) Return was for a long time reduced to “moves”, while the significance of creating conditions for the reintegration of returnees, primarily in the economic and social sectors, was neglected. For example, one has no great reason to return to a reconstructed house, with guaranteed safety, if there is no means of earning a living and no school for your children.
A special obstacle to return still lies within the unsynchronized Constitutions of FB-H and RS and the B-H Constitution, with regard to the equality of all three nations and others living in the territory of the entire country. Today, Bosniacs and Croats are national minorities in RS (in international law terminology), while Serbs are a national minority in FB-H, which in practical terms means that they are “second class citizens”.

²⁹ See: Global IDP Database, *IDPs in Bosnia-Herzegovina*, Norwegian Refugee Council. <http://www.db.idpproject.org>

4.6. Further progress of return is to be expected in 2001. Significant support from international organizations will be absent due to a large decrease in donations for return. Large amounts of money were spent during the years of low return, and now, when return has intensified, financial support is lacking.

The UNHCR B-H budget, which amounted to 196 million USD in 1996 and only about 34 million USD in 2001, demonstrates this problem. According to a UNHCR estimate, 23,000 houses should have been reconstructed during 2000. The budget allowed for reconstruction of 4,700 houses, but in fact only 3,000 were actually repaired.³⁰ The situation can only worsen in 2001.

4.7. The structure of refugees and IDPs, and their sociological profile is of great significance for the state and future of human resources in B-H.

Refugees are mostly from urban areas, and are mostly part of the educated, relatively younger population. The fact that almost half of them will never permanently return to B-H is a great loss of human resources for the country.

IDPs are mostly from rural areas, less educated and older. They arrived in cities, changing their sociological structure and often creating tensions with the local population.³¹

In B-H, IDP movements in many ways corresponded to normal migratory movements from rural to urban areas. The lengthy period of IDP status creates the tendency for these people to remain in cities. It is difficult to expect them to return from Sarajevo to their villages in the mountains, especially in the case of young people. Thus, support for the economic, social and cultural development of cities is essential. This relates to problems which are a consequence of non-return and no matter how "politically incorrect" they may be, they are realistic and important for the development of the country; particularly with regard to preserving the identity and development of cities as centers of industrial, educational and cultural development of the country.

5. Dependency Syndrome

5.1. From all that has been said above, it can clearly be seen that the basic characteristic of B-H is its total dependency on foreign assistance. At the same time, after five years the level of foreign assistance is starting to fall off rapidly, facing the country with a very uncomfortable situation and economic reality and obvious need for changes of the political (national) parties that were in power for a significant period of time. Part of that reality concerns the international community. The question that needs to be answered is, what is the cause of the situation in which the country finds itself, after five years of massive foreign assistance, being completely dependent on it. In other words, this assistance did not prepare the country for sustainable development. In addition, we are speaking here of a European country with developed local capacities and experience from the pre-war period when it was a medium-developed country.

Dependency is unavoidable in emergency situations, as was the case during the war. However, the prolongation of the state of dependency reinforces itself as an informal but genuine "system". Dependency begins to affect changes in the social structure, having serious social and psychological consequences. It forms its own social structure that is inclined towards reproducing itself. Another facet of this process, let us call it "perverted transition", is the alienation of policies and instruments of international support from their official goals.

³⁰ UNHCR, *Funding & Donors Relations – 2000 Global Appeal – Strategies and Programmes*, 2000.

³¹ For more details see: P. Stubbs, *Bosnia-Herzegovina*, In: J. Hampton (ed), *Internally Displaced People: A Global Survey*, Eartchar Publ., London, August, 1998.

5.2. A number of important processes that demonstrate social changes, and whose causes are economic and political dependency, can be distinguished. At the same time, these processes form a “dependency syndrome” which can create a state of dependency, and can take the form of a completely dependent society.

5.2.1. It can clearly be seen, by the November 2000 elections, that representatives of local authorities did not consider themselves responsible for the situation in the country, in particular that of the economic and social sectors. They viewed their political responsibility towards voters mainly as the need to represent their interests (national, or at its best, local) to the representatives of the international community. These, in turn, were deemed responsible for the situation in the country, and it was asked and expected of them to solve all of the local problems. An excuse for a very bad social and economic situation is developed through this way of thinking.

5.2.2. Corruption and organized crime were often closely linked to the authorities. New political authorities still function in this reality, while the process for overcoming this is still at the beginning. Corruption and dependency are directly correlated, not only in B-H of course.

Corruption, an institutional nightmare and the absence of the rule of law are not solely consequences of the war. The large influx of resources as foreign assistance, often non-transparent and always uncoordinated, has created conditions for corruption and the organized abuse of financial assistance.

There is still no serious investigation into corruption linked to international assistance. There are numerous indications that it has been extensive and that a significant part of the assistance was misused. Thus, the development of transparent State institutions and the rule of law, is not just a condition for the abolition of corruption and organized crime, but is also an important method for ending dependency.

5.2.3. The internal “brain drain” to international organizations may seem a logical consequence of the weakness of the local “sector”, in particular, of its economy, and the incomparably better conditions in the “international” sector. Young Bosnians, educated while living as refugees abroad, are not returning to B-H, but rather to international organizations in B-H. This diminishes the human resources of the “local”, and strengthens “local” human resources of the “foreign”, sector, and intensifies dependency.

5.2.4. A large portion of international support is justly aimed at the democratization of B-H and the development of civil society. The politics of support to civil society are in many ways inadequate.³²

Here, we wish to emphasize that this method of support is very close to the basic characteristics of the “aid industry” and that it “covers” a very minor elite within the population. Consequently, this “elite” is professionalized, it separates itself from the “grass roots” problems and social reality. Hundreds of round tables and workshops are “produced”, attended by the same 100-200 civil society “partisans”. As a result, one receives a fictitious view of the great efforts of local partisans and international organizations, which results in a “virtual civil society”.

This again closes the circle of dependency. Changes of the real society, strengthening of the active citizen and grass roots initiatives are a condition for exiting dependency. Instead of this, a civil society elite is being created together with its virtuality. This phenomenon can be explained, but in order to overcome it, it has to be understood. As opposed to this, everyone is full of wonder when the “virtual picture” is destroyed at the elections, when national parties receive many more votes than corresponds to the “virtuality” which we all believed in.

³² For more details see the special chapter of this Study, as well as the comprehensive Study: M. Ottoway and T. Carothers (eds), *Funding Virtue: Civil Society Aid and Democracy Promotion*, Carnegie Endowment for International Peace, Washington, 2000.

5.3. The clear dynamics of dependency is visible, the “closing of the circle”. The standstill and aggravation of the social and economic situation strengthens dependency and itself enables and supports stagnation and deterioration.

As important as it is, the following comparison is frightening. During the Second World War, B-H underwent relatively greater material losses and an incomparably greater loss of human lives. Less than five years were needed to reach the GDP level of the year before the beginning of WWII and to complete reconstruction. This was carried out without any international assistance, but rather, in conditions of international isolation (due to the Trieste crisis and conflict with Stalin). Of course, this is not an apology for the early-communist methods used at that time. However, it is a fact of history and raises the question as to why something similar did not take place following this recent war and extensive international assistance.

6. Costs to the International Community for Establishing Peace and Reconstruction of B-H

6.1. An overview of total financial resources of international organizations and particular donor countries, spent in B-H and outside it, in various areas (the costs of peace-keeping operations, costs of refugees from B-H in asylum countries, humanitarian donations to displaced persons in the country, the funds for reconstruction of housing, infrastructure, etc.) does not exist. It is only possible to find partial information, data, on some costs of the peacekeeping operations or refugees. On the other hand, all international organizations publish their annual budgets for B-H, particularly the WB for PRP. However, this does not encompass all donations that entered B-H.

The lack of transparency on the part of domestic authorities in this regard was obviously politically motivated. It would be difficult to explain to what measure large donations were inefficiently used. The absence of a general overview of all costs and donations of the international community, as well as the existence of only-partial indicators for certain organizations, perhaps has the same reasons.

So, what we are talking about is the total “international community” costs of the war in B-H, and its reconstruction within the country and outside it (rather than only covering donations and assistance). This new approach has to enable the start of a discussion on the efficiency of support policies, and the expenditure, in order to have a result.

We consider the issue of cost-effectiveness of the international support to B-H to be a very important starting point for critical analysis of assistance and support policies.

The following estimate is based on available data on some segments of “costs” and it should be considered a working estimate. While calculating this, the lowest possible estimates were taken, meaning that the real numbers are probably higher.

The estimate of “costs” of the international community and donations for all purposes refers to the period 1992-2000 (including 2000) and is given through the estimation of two sub-periods: the war period and the post-Dayton period.

6.2. There are three basic sectors of “costs” of the international community in the war period 1992-1995 (4 years):

- a) Humanitarian assistance to refugees from B-H in the countries of asylum, i.e. an estimate of the cost of the induction of refugees.

By the end of 1992, the number of refugees was already 840,000 and it remained on the level of 1.2 million³³ from 1993 to 1995. The largest number of refugees from

³³ UNHCR: *The State of the World's Refugees in Search of Solutions*, 1995.

B-H during four years of war (300,000 – 400,000 refugees) was in Germany, not taking into account the countries of ex-Yugoslavia.

The total costs estimated for B-H refugees were 13-14 billion USD.³⁴

- b) Humanitarian aid in the country, primarily for the population of cities under siege (Sarajevo) and displaced persons.

The total number of displaced people increased from around 700,000 by the end of 1992 to 1.3 million in 1995),³⁵ while in Sarajevo, for all practical purposes, the entire population lived only from humanitarian aid during the four years of war, (in 1992 over 500,000 and at the end of war around 300,000).

The estimate of total humanitarian aid in the country was 5-6 billion USD.

- c) The estimated costs of peacekeeping operations, UNPROFOR and other organizations, including the costs of the NATO air intervention during 1995, were 7-8 billion USD.

Therefore, the total estimated costs (a + b + c) in the period 1992-1995 were 25-28 billion USD.

The costs to neighboring and other countries involved in the financing of the war in B-H are not included. According to the available estimates, those costs were very large. The costs of military support to the RS Army by the Federative Republic of Yugoslavia (FRY) were around 4 billion USD.³⁶ The costs of military support to the Croatian Defense Council (HVO) by the Republic of Croatia were around 2 billion USD.³⁷ Alija Izetbegović, on several occasions, by the end of 1999, announced in public that the B-H Army was supported with 10 billion USD during the war, which seems an incredibly large amount. It is more likely that support to the B-H Army from Islamic countries and the Bosniac Diaspora was not more than 4-5 billion USD.

Therefore, the estimated cost of the external financing of the war in B-H was 10-11 billion USD.

6.3. In the period of the peace process, 1995-2000 (5 years), five basic sectors of “costs” of the international community can be analyzed:

- a) Humanitarian aid to refugees from B-H in the asylum countries was reduced significantly. The number of refugees decreased each year, mostly with their departure to third countries (finding a “long-term solution”), because the return to B-H was slow. Approximately 700,000 refugees managed to return. During 1997, the number of refugees was around 600,000, of which 200,000 were in Germany.³⁸

The return to B-H was also very slow during the following years.

The total estimated cost of B-H refugees was 7-8 billion USD.

- b) Humanitarian aid to the country, in this period, covered a wide spectrum of activities, above all in the attempt to create conditions for return. The number of displaced

³⁴ During 1996, the Government of the Federal Republic of Germany announced several times that, only in that country, the costs for B-H refugees were 16 billion DM, which was (by the exchange rate from that period) around 10 billion USD. For general assessment, it was born in mind that the costs for refugees in the FRY and Croatia (over 500,000) were relatively small, since most of them found accommodation with friends or relatives.

³⁵ UNHCR estimate.

³⁶ According to the 1996 assessments of the Economic Institute in Belgrade.

³⁷ Interview of the Croatian MP, Damir Kajin, in *Nacional*, 09.08.2000.

³⁸ UNHCR, *Population of Concern to UNHCR – 1997 Statistical Overview*, 1998.

persons however, diminished very slowly because of political obstacles to their return. It was approximately 860,000 in 1998.³⁹

Total humanitarian aid to the country is estimated at 7-8 billion USD.

- c) The costs of peace operations and peacekeeping have both military and civil components.
We assess military costs (IFOR, SFOR), which covered 60,000 soldiers in 1996, with the gradual reduction of their number to 20,000 in 1999, at 14-15 billion USD.⁴⁰
The civil costs, regarding international organizations and the implementation structure of the GFAP (OHR, UN, IPTF, OSCE, etc.) could be estimated at 3-4 billion USD during the five-year period.
Therefore, the estimated costs of peacekeeping and implementation of the GFAP in total amounted to 17-19 billion USD.
- d) Total assistance and support to economic recovery in B-H, which has a wide range from the WB PRP (5.1 billion should be spent by the end of 2000), EU support, to support of bilateral donors and support to financial and monetary stability, could be estimated at 10-12 billion USD.
- e) Various forms of direct donations of international NGOs, decentralized co-operation, direct solidarity with local communities in B-H, assistance for development of civil society, democratization, media and various forms of direct assistance of Islamic countries⁴¹ amount to 5-6 billion USD.

Therefore, the total costs and donations (a + b + c + d + e) for the post-war period of 1995-2000 could be estimated at 46-53 billion USD.

6.4. The total estimate of costs and donations of the international community in B-H during the war and the post-Dayton period is therefore 71-81 billion USD.⁴²

It is interesting that ICG, in one of its reports, mentioned that annual costs of maintaining operations in B-H amounted to 9 billion USD, without explaining whether this estimate is also related to the war period or, what is more likely, only to the post-Dayton period.⁴³ Our estimate for the post-Dayton period, conducted independently from the hypotheses of the ICG information resources, basically corresponds to the ICG data because, expressed annually, it would come to 9.2-10.4 billion USD.

We should also note the information from the US General Accounting Office (GAO), that the total US military and civilian costs in B-H, in the period from 1992-2000, were 12.558 billion USD.

The above-mentioned ICG assessments and GAO data indicate the reality of our assessments of the international community's general costs.⁴⁴

If we compare the estimated costs of "international community" activities in B-H, and outside it, targeting the normalization of life in the country with the "results" described in parts 3, 4 and 5 of this chapter, the conclusion is obvious. The cost efficiency of policies was dramatically low, and it is high time for this to change.

³⁹ Global IDP Survey (pub. Earthscan Ltd.), 1998.

⁴⁰ According to the information published in American press, only the costs of the American armoured division (arrival, presence, departure) (around 20,000 soldiers) in 1996 were 2-2.5 billion USD.

⁴¹ Only the High Committee for Assistance to B-H of Saudi Arabia annually donates around 60 million USD (*Oslobođenje*, 01.09.2000).

⁴² The costs of financing the war in B-H by foreign countries, estimated at 10-11 billion USD, which increases the costs to 81-91 billion USD, should also be born in mind.

⁴³ ICG Report, *State of the Balkans*, 4 November 1998, Sarajevo, p. 9

⁴⁴ GAO, *Balkans Security: Comment and Projected Factors Affecting Regional Stability*, April 2000.

7. The Need for Change and Modification of International Support Policies

The experience of B-H as a beneficiary and object of extensive international assistance seems to raise two very important general issues. Both demonstrate the inefficiency of the system of international organizations and the necessity for their transition.⁴⁵

7.1. The first issue is the relation between poverty and sustainable development. Nowadays, increasing poverty in the world is not only inherited, it is also being “produced” to a great extent. It is a new poverty, in particular in ex-socialistic countries. It cannot be surmounted by the policies of reaction to the problem (strategies against poverty), but only through sustainable development, by eliminating the poverty “generators”.⁴⁶ Do the approaches of the international support policies aim towards sustainable development? Are there policies that orient the process of economic globalization towards balanced development?

7.2. The second issue is the common over-simplification of the transition process of ex-socialistic countries to be nothing more than market economy development. From this, the next logical step is that development of the market economy is nothing more than privatization. It seems that it is expected that the market and new way of functioning of the economy should automatically change all the social structures and lead to democratization, and civil society, i.e. well-being and prosperity.⁴⁷ This is not what happens.

The consequences of this reductionism (poverty, the shriveling of the formal economy, development of new forms of organized crime, increase of the “gray economy”, totalitarianism in some cases, etc.) cannot be conceived as only temporary consequences of great changes when they are there 10-12 years after the initiation of the transition.

Is there a need to radically re-examine the approaches of transition policies?

7.3. A cynical observation might be made that the philosophy which the transition approach relies on is basically a Soviet interpretation of Marxism, “the basis (economy) determines the superstructure (society)”, or, more precisely, an oversimplification of “dialectic materialism” by its “diamat” interpretation. Within Marxism itself, this interpretation was criticized and rejected during the Nineteen-Fifties. Given this framework of a “philosophy of transition”, it is not unusual to observe that international organizations want to replace the “command economy” by the market economy, through “command transition”. This contradiction within the approach itself cannot possibly produce good results.⁴⁸

7.4. The experience of B-H, as a beneficiary country of extensive international assistance, with the above described “results”, can be an important contribution to the transition of international organizations as well as their approaches and policies. This is especially so, due to the lack of relevant analyses of international assistance carried out by

⁴⁵ See: National Security Council, The White House, The Transition Project, *Strategies for Transitioning to the Next-Generation International Institutions*, Action Memorandum – Proposed US Presidential Initiative, Washington, 4 July 2000.

⁴⁶ For more detail see *Eliminating World Poverty: Making Globalisation Work for the Poor*, White Paper on International Development (Presented to the Parliament by the Secretary of State for International Development by Command of Her Majesty), December 2000, www.globalisation.gov.uk

⁴⁷ In a number of his works, G. Soros named this approach “market fundamentalism”, noting that, as with other fundamentalist beliefs, the followers of this approach claim to be in possession of the “ultimate truth”.

⁴⁸ In professional circles of economic research, criticism of the basis of transition policies and practice are considered nowadays as a pre-condition for sustainability and rehabilitation of its objectives and historical reasons. The topic is opened, metaphorically speaking, at the “second transition”, oriented towards correcting mistakes from the “first” one (in particular, in the domain of controlling the “grey economy”). See V. Gligorov, presentation, UNDESA, UNDCP, *Workshop on Social Policies in Transition Economies of South-East Europe*, Vienna, 20-22 June, 2000.

the beneficiary of that assistance. All analyses have been completed by, and for the needs of, the “donor” of that assistance. That makes the picture of international assistance completely one-sided, disables critical analyses, as well as the proposal of more radical changes of policies.

On the basis of the experiences of international assistance to B-H and the already mentioned enormous disproportion between implemented assistance and its results, it is clear that there is a need to find new solutions for the problems related to the approach and concept of assistance policies. For example:

7.4.1. The existing policies are not adjusted to the new and specific conditions. The new conditions for international assistance in B-H consist of the fact that it is a European country with developed domestic, and above all, human capacities and the fact that B-H has been undergoing the transition in post-war conditions since 1995.

The assistance policies traditionally developed for the other cultural-civilization conditions and static social situations could not be expected to provide good results in B-H.

7.4.2. Also the example of B-H has confirmed that international organizations are very bureaucratic and dogmatically oriented without internal motives for the adjustment of policies. Their lack of co-ordination, including that of bilateral donors, and frequent “competitiveness”, expresses their bureaucracy and various interests that have nothing to do with their official aims and, in the end result, lead to low cost-effectiveness.

7.4.3. There are no instruments and policies for the early prevention of the dependency syndrome. Instead, the reactions are a consequence of an already formed dependency.

7.4.4. The policies for economic reconstruction, as well as attempts to support economic transition, are completely separate from the adjustment policies of the social sector.

What is worse is that support for the reconstruction of social structures in B-H has been completely neglected. The structure of society itself in this region has been destroyed to a greater extent than the economy.

7.4.5. It seems that the above-mentioned is a result of the previously mentioned approach that the development of the market economy will automatically lead to the development of new social structures and institutions and that fair multi-party elections will automatically “introduce” democracy to the country.

On the contrary, as the experience of B-H clearly shows, a legal State and transparent institutions are the condition for the development of a market economy. Similarly, multi-party elections mean democracy only if they are attached to the process of development of civil society, NGOs and local self-governance, along with free media.

Without this, economic transition and privatization become new fields for the activities of organized crime, and multi-party elections help the functioning of three, nationalist, one-party systems.

7.4.6. The critical evaluation of existing policies of international assistance, as well as suggestions for their changes, could be of great importance for the Stability Pact.

7.5. Recommendations based on the critical analysis of international support policies in B-H are not universally valid. It should be taken into account that this concerns a specific crisis in a specific country that is, among other things, European and used to be mid-developed. It could even be said that, according to the full experience of B-H, universal international support policies which are implemented in different conditions are ineffective. B-H has accepted these policies, which were not adapted to this country, as an object of assistance, like a “patient” who knows that they are receiving the wrong “therapy”, but cannot change the situation, and even less can they change their “doctor”. The fact that the

doctor begins to modify the therapy after several years does not compensate for the money lost, time wasted, and suffering of the patient.

Therefore, the first and basic recommendation, based on the B-H experience, is the need for flexibility of international support and assistance policies, as well as their rapid adaptation to local specific conditions.

There are three basic recommendations important for new approaches for international support policies:

7.6. International support to economic reconstruction should be integrated with support to social reconstruction, from social sectors (health, social protection, pension system, the unemployment problem, etc.) and education to support for the reconstruction of the social structure (local communities, local civil organizations, families, etc). Social reconstruction means much more than institution building or protection of human rights and democratization. It reconstructs and builds the new social environment necessary for success of economic reconstruction, in particular success of the economic transition. In B-H, this recommendation is related to the following important needs:

7.6.1. Co-ordination of the GFAP implementation, the program of economic reconstruction and the support to sustainable development in B-H and the Stability Pact programs.

The existing attempts of linking GFAP implementation with economic reconstruction are reduced to fulfilling political conditions, in order to obtain financial support. It did affect changes in the RS, for example, and some other local areas. However, this greatly politicized the “link” between these two basic directions of support to the reconstruction of B-H, with the simplified methods of a “stick”, and it resulted *de facto* only in rewarding or punishing the policy-makers.

Real and complex links have not been made with the Stability Pact, as has already been said, and, as a result, the SP has remained totally on the sideline.

7.6.2. Immediate support to defining and implementing social policies that will alleviate the impending social explosion that threatens the process of normalization.

Without this, poverty will “give birth” to new, or renew old, radical and totalitarian ideologies and threaten the democratization and stabilization, not only in B-H but in the Region as well. The development of sustainable, social policies in the Region also has a preventative effect, since poverty is the real “powder keg” much more so than the “its the Balkans!” explanation. It is necessary to “push”, stimulate and support, the authorities in B-H to take responsibility for the social situation, instead of constantly merely seeking foreign aid i.e. to find a way out of the state of dependency through the development of sustainable social policies.

7.6.3. Support to local communities and local self-governance, as well as community-based organizations and citizens’ initiatives and NGOs at the grass roots level.

7.7. Defining new support policies for transition. B-H is a doubly specific case; this is a case of transition in post-war conditions, which makes the problem much more complex.

Since the Priority Reconstruction Program being implemented by the WB, attempts have been made to support transition, through PRP criteria, as well as a series of other activities (monetary sector and Central Bank, technical assistance, etc.). In B-H, the transition process itself has international financial support, which was not the case in other countries at the beginning of the transition. This support to the process of transition could be much more efficient, and the transition itself could be faster and more successful, if the policies of this support were adapted to the B-H post-war conditions, as well as to the general experiences of transition. More precisely, it is necessary for support policies targeting transition to be oriented towards:

7.7.1. Balanced efforts for the transition of the economy and social structures, in particular new support to the development of sustainable social sectors adapted to market conditions.

7.7.2. Support to restructuring the economy and relations among certain sectors. A market that fully operates in an economic structure which was built in non-market conditions demonstrates, through the withering of the economy, the inefficiency of the existing structures. This good academic answer does not solve the increased social problems and poverty, as it is poor consolation to the unemployed that the market will restructure the economy in time.

Therefore, it is necessary to develop policies of international support for development, for example, of SMEs. This money is more rationally invested than the money "lost" in advance, through credits given to budgets or writing off debts, when a social explosion is impending.

7.7.3. At the very beginning of the transition process, policies for the prevention of the development of the "gray economy" should be developed and they should stimulate the "formal economy" and not just restrict the "gray economy".

7.7.4. More sophisticated policies of criteria and conditions imposed upon the local authorities should be developed for external support, above all, from the WB and IMF.

7.8. Full support to the development of local capacities should be the basis, from the very beginning, of the international support policies. Partners in the implementation of the project and support should be local organizations, NGOs, governmental and other public institutions, at the local and national/state levels. They can be rapidly and effectively enabled, in particular in countries such as B-H where the tradition of local institutions and developed human resources exists.

In this way, sectoral support programs obtain additional, indirect effects, and additional multi-sectoral results. For example, when local NGOs are included in social protection projects, more qualitative social protection of beneficiaries will be realized, transition from classical social protection to a welfare-mix system will be supported, as well as strengthening of the NGO sector and, therefore, indirectly, support to civil society development. At the end of these multiplied results, there is also the creation of a sustainable system of social protection, as well as an active civil society.

On the other hand, if international NGOs are engaged, in the same example, there will be high fees of implementation, i.e. reduced means of social protection itself, routine assistance to beneficiaries, as well as null sustainability of local social protection, i.e. its full dependence on the new assistance.

The early reliance on local capacities in the implementation of support policies is an important condition for realization of sustainable economic and social development, which should be the goal of any international assistance.

7.9. It is necessary to develop mechanisms that will preventively act against the "dependency syndrome", i.e. to clearly define the methods of realization of self-sustainability, as a component of all sectoral policies of international assistance.

The above-mentioned recommendations can be elements of support policies that, from the very beginning, directly and indirectly strengthen self-sustainability.

7.10. The organization, way of planning, and implementation of the program of international organizations and bilateral donors have confirmed all the above criticisms, in particular with regard to the bureaucracy of international organizations. Therefore, this is not simply a matter of bureaucratic and inefficient operation. The problem is much more serious. It is that the bureaucracy separates the international organizations and their support policies from their objectives (which is still to support peace and reconstruction of countries and war-affected peoples). Bureaucracy forms its own independent but active

objectives for the organizations, according to which the organizations are an objective in and of themselves as well as, of course, their staff.⁴⁹ The earlier discussed lack of co-ordination amongst the activities of different international organizations in B-H results from these interests that lie in the background.

7.11. The basic, practical recommendation for the eradication of inefficient and counter-productive bureaucracy in international organizations is an early inclusion of local staff in their offices in beneficiary countries.

“The policy and practice of these (international) organizations must be guided by an ethos of “unsung assistance”, strengthening local, human, institutional and governmental capacities, designed so as to eventually eliminate the need for international assistance.

The replacement of foreign staff in international organizations by local personnel must take place at a more rapid pace... By the end of 1999, at least half of the employees of international, governmental and non-governmental organizations should be B-H citizens, increasing to 75% in the year 2000 and 90% in the year 2000.”⁵⁰

7.12. In the way suggested above, the orientation of international policies towards the realization of self-sustainability is also strengthened. On the other hand, it is a serious question as to how much the international personnel in international organizations is motivated to strengthen local capacities and sustainability, because, in this way, they lose the chance to stay, their working position and their very high salaries. This is, among other things, the inter-organizational motivation of bureaucracy and behavior, in accordance with the interests of the organizations, and not in the interest of realizing the organization's objectives. The interest of the organization is to exist and to be developed. Therefore the best ambience is the beneficiary countries being dependent on international assistance. This is, of course, directly in opposition to the official objectives of international organizations. In the conflict between the official objectives and the unofficial interests of organizations, the unofficial interests have so far been the winners.⁵¹

7.13. It is necessary to radically change the methodology of implementation (programs, projects, criteria for selection of partners in implementation, etc). It is currently adapted to the expectation that the implementing partner will be an international NGO (in particular, one of the big transnational NGOs) that will implement the project for a fixed period (1 year) and then move on to where the market of donations is more favorable for the aid industry.

Thus, the implementation methodology should be adapted to a new target, a local NGO partner, for example, for longer project periods to project sustainability as the basic criteria.

Donor countries should not require that their NGOs implement projects financed by their donations. On the contrary, they should require that local NGOs or other organizations implement them. The examples of Finland, the United Kingdom and Switzerland in B-H show the justification of this recommendation.

⁴⁹ In order to understand this problem, it could be helpful to remember the term “techno-structure”, as well as to read again the excellent book of J.K. Gulbraith, *The New Industrial State*, (in Croatian) “Stvarnost”, Zagreb, 1970.

⁵⁰ UNDP, *HDR – B-H 1998*, UNDP/IBHI, Sarajevo, 1999, p. 20.

⁵¹ Only the above-described interests of bureaucracy in international engagements have completely direct consequences on the cost-effectiveness of international support and assistance. According to assessments from different sources, 50-60% of the amount of donations are being spent on their “implementation”, administrative expenses of international organisations in the preparation and implementing phases of the aid programme and the expenses of the international NGO, the usual implementing partner of international organisations. Another estimate states that purchase goods and services in donor countries decreases assistance by approximately 25%. (See: *Eliminating World Poverty: Making Globalisation Work for the Poor*, White Paper on International Development, ibidem, p. 94).

7.14. Therefore, perhaps the most important recommendation is to engage international organizations to enable on-going critical evaluation of the totality of their activities in given countries, and this evaluation should be done separately, in equal co-operation with local independent experts, governmental institutions and civil organizations. The existing practice of evaluation missions that analyze the activities of certain organizations has not yielded valuable results. Basically, nothing has changed. In this analysis, it must certainly be that the cost-effectiveness of international policies of support and assistance should be one of the basic criteria.

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